

INCREASING OF GOVERNMENT CONTRIBUTIONS FOR
FEDERAL EMPLOYEES HEALTH BENEFITS

SEPTEMBER 11, 1973.—Committed to the Committee of the Whole House on the
State of the Union and ordered to be printed

MR. WALDIE, from the Committee on Post Office and Civil Service,
submitted the following

REPORT

together with

MINORITY VIEWS

[To accompany H.R. 9256]

The Committee on Post Office and Civil Service, to whom was referred the bill (H.R. 9256) to increase the contribution of the Government to the costs of health benefits for Federal employees, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

PURPOSE

The purpose of this legislation is threefold.

First, it would increase the Government's contribution for Federal employees' health benefits plans from 40 to 55 percent beginning in 1973 with an additional 5 percent increase each year thereafter until 1977 when the Government contribution would reach 75 percent.

Second, the legislation would allow annuitants who retired prior to July 1, 1960, and who are now covered under the Retired Federal Employees' Health Benefits Act to elect coverage under the health benefits provisions of chapter 89 of title 5, United States Code.

Finally, the legislation requires a carrier participating in the health benefits program to agree to comply with a Civil Service Commission decision in a health benefits claim dispute.

COMMITTEE ACTION

H.R. 9256 is similar to H.R. 12202, 92d Congress, which passed both the House and the Senate in different versions. A conference

committee did not agree on the differences. H.R. 9256 is a clean bill introduced in lieu of H.R. 3025, and was approved by a voice vote of the Subcommittee on Retirement and Employee Benefits and ordered reported by a voice vote of the full committee. Hearings (committee No. 93-12) were conducted on the subject on July 10, 1973.

SUMMARY OF H.R. 9256

Government contributions.—H.R. 9256 provides for increasing progressively the Government's share of premiums charged under the Federal employees' health benefits program.

Under existing law (5 U.S.C. 8906), the Government's contribution is pegged to the high-option level of benefits, using a premium base of six plans representative of the four different kinds of plans which participate. The Government's standard contribution to the total subscription charge for an enrollee's health benefits plan, presently set at 40 percent of the average high-option charge of six large representative plans, would be increased to 55 percent, effective the first pay period which begins on or after 30 days following enactment. Beginning in January 1974, and in each subsequent year, the statutory percentage contribution by the Government would be increased by an additional 5 percent. In 1977 and thereafter, the Government's contribution would be an amount equal to 75 percent of such average charge. Such increased rates of contributions will apply to both employees and annuitants, including annuitants whose annuities are based on service in the Postal Service.

The current provision limiting the contribution to 50 percent of the actual charge of any particular plan or option is amended to increase such limitation to 75 percent. This limitation will apply generally to low-option levels of benefits.

Pre-July 1960 annuitants.—Certain retirees and survivor annuitants whose retirement rights are based upon separations prior to July 1, 1960, are eligible to enroll in the retired Federal employees' health benefits program authorized by Public Law 86-724. Those whose separations occurred, or occur, on or after July 1, 1960, are covered by the Federal employees' health benefits program in which active employees participate, initially established by Public Law 86-382.

The bill will permit any pre-July 1960 annuitant to whom Public Law 86-724 applies to elect, in lieu of coverage under that program, coverage under the program currently applicable to post-July 1960 employees and annuitants.

Those annuitants who feel that the benefits provided by the "retired" program are inadequate for their health care needs may elect to come within the more comprehensive "employee" program, subject to regulations prescribed by the Civil Service Commission.

Binding decisions of the Commission in claims disputes.—The contracting authority of the Commission is extended to require that each health insurance carrier contract under 5 U.S.C. 8902 shall include a provision requiring the carrier to pay for or provide a health service in an individual case if the Commission finds that the employee, annuitant, or family member is entitled thereto under the terms of the contract.

The law presently does not provide an adequate administrative remedy for Federal employees who receive favorable decisions from

the Commission which the carrier then refuses to honor. This provision would make all final determinations by the Commission on claim disputes arising out of the Federal employees' health benefits program binding upon the carrier involved.

STATEMENT

At the end of fiscal year 1973 the Federal employees' health benefits program—the largest voluntary employer-sponsored health insurance program in the world—completed 13 years of operation. The program covers over 8 million persons, including more than 2½ million employees and annuitants and over 5½ million dependents. Benefits valued at more than \$1 billion were provided during calendar year 1972.

The committee's continuing concern over the skyrocketing costs of providing health benefits was demonstrated during the conduct of public hearings reviewing the experience and administration of the programs within its jurisdiction. Medical care costs, including the cost of hospitalization, surgery, physician and nursing fees, drugs and medicines, and laboratory services, have spiraled in recent years and continue to accelerate faster than the prices of any other commodities or services.

Since World War II, the Consumer Price Index and its medical care component have been rising constantly, with the latter considerably outpacing the former. In the 1960's, however, the gap between the relative increases in these two indicators widened significantly as shown by the figures set forth below from table C-44, Consumer price indexes by expenditure classes, 1929-72, of the Economic Report of the President, 1973, House Document 93-28.

| | All items (average) | Medical care (average) |
|--------------------|------------------------|---------------------------|
| Year: | | |
| 1967..... | 100.0 | 100.0 |
| 1968..... | 104.2 | 106.1 |
| 1969..... | 109.8 | 113.4 |
| 1970..... | 116.3 | 120.6 |
| 1971..... | 121.3 | 128.4 |
| 1972..... | 125.3 | 132.5 |
| | (actual) | (actual) |
| December 1972..... | 127.3 | 134.4 |

While the average annual increase in the Consumer Price Index as a whole amounted to 3 percent for the period 1946-60, with the medical care component increasing by 4.2 percent, there was a perceptible slowdown in the rate advance for all consumer items during 1960-66.

Meanwhile medical care prices increased almost twice as fast as prices for all consumer items. The gap continued in the following years when medical care prices advanced at an annual rate of 6.7 percent while all consumer items increased 4.1 percent annually.

In 1970, the Nation spent, for health and medical care, two and one-half times the amount spent 10 years before and more than five times the amount spent 20 years earlier. The average health bill for each American was \$324. Just 10 years before, the average was half that amount—\$145, and 20 years earlier, it was less than one-fourth

the 1970 amount, \$79. This growth represents an average increase of 7.3 percent per year. During this same period, the average increase in industrial wage levels was 4.3 percent per year.

The spiraling of such expenditures in that period resulted from three major factors: about 47 percent is attributed to price increases, 17 percent is the result of population growth, and 36 percent is due to increased use of services and the introduction of new medical techniques. Hospital daily service charges have been increasing faster than any other component. Much of that rise is due to wage increases for hospital employees.

Part of the rise in physicians' fees is attributable to the demand for physician services without a corresponding increase in the supply of physicians, such demand being intensified by the lowering of financial barriers to those services through widespread insurance coverage.

The Federal employees' health benefits program has experienced both this national problem of escalating health care costs and that of financing the cost of medical insurance. As care costs rise, the portion of them not covered by the program constitutes a greater burden for Government employees and annuitants. As premium charges rise to cover such costs, an additional financial burden is imposed upon these employees and retirees. The net effect has been pay cuts in order to maintain essential coverage.

The trend in private industry has been toward the employer assuming the major cost of employees' health insurance premiums and in many cases the full cost. Not only are major industrial employers paying a major portion of the premium costs, but they also are providing a level of benefits comparable to those provided under the various Federal employee plans.

A 1966-1967 survey conducted by the Bureau of Labor Statistics, Bulletin No. 1530-37, indicated that 64 percent of plant workers and 49 percent of office workers were employed in establishments which paid the full cost of health insurance coverage. This progressive trend is further reflected in Bureau of Labor Statistics' Bulletin No. 1629, Digest of 50 Health and Insurance Plans, published in November 1969, reporting on the health insurance plans for salaried personnel working for large employers in each of 50 major industries. This study revealed that 50 percent of those employers paid the full cost of employees' health insurance, covering hospital, surgical, medical, and major medical expenses. Among those large employers paying the total cost of medical coverage were:

| | |
|--------------------------------|-------------------------|
| Aluminum Corp. of America | International Harvester |
| American Airlines | International Paper |
| American Can Co. | Kresge |
| American Sugar Refining Co. | Lerner Shops |
| Armour & Co. | Minnesota Mining & |
| B. F. Goodrich Co. | Manufacturing Co. |
| Campbell Soup Co. | Penn Central |
| Caterpillar Tractor Co. | Pittsburgh Plate Glass |
| Dupont | Radio Corp. of America |
| Firestone Tire & Rubber Co. | Swift & Co. |
| Ford Motor Co. | Union Carbide |
| General Motors Co. | U.S. Rubber |
| Greyhound | United States Steel |
| International Business Machine | Weyerhaeuser Co. |

A December 1972 report of the U.S. Civil Service Commission, "Retirement, Life Insurance, and Health Benefits Programs, Benefit Comparisons and Cost Projections" includes the following on health benefits plans:

Contributions.—There is considerable variation in the percentage of premium paid by employers of all types. The only certainty is that the percentage is increasing. Of the 17 employers (mostly private) who were listed by a major publication in fiscal 1972 as having changed their premium structures, 9 are now paying 100% of the premium and 3 others are paying at least two-thirds.

In the decade from 1960 to 1970, the percentage of plant-workers with coverage under noncontributory hospitalization plans rose from 48 to 66, while the percentage of office workers in that situation increased from 39 to 53.

Changes have also occurred in the policies of State governments. Whereas a year ago only 16 States paid more than 50% of the premium for coverage of individual employees, 22 States are now doing so.

Among cities with a population greater than 400,000 over 71% now pay the entire basic health insurance premiums for single enrollees, as opposed to 64% just a year ago.

The Federal Employees Health Benefits Program is subject to a statutory limitation of 50% as the maximum employer contribution. Generally, the Federal share of the premium is cited as 40%, since the complex formula used in establishing the employer share does not lend itself to brief expression. The practical effect of the formula, and of rate changes for plans which are used in the formula, is that in calendar year 1972 the Government contributed less than 40% of the cost for 67% of enrollees, but for calendar year 1973, the Government will contribute more than 40% of the cost for 92% of enrollees.

* * * * *

Comparison summary.—As a result of liberalizations by other employers, the ability to acquire and retain coverage easily is no longer unique to the Federal program. Other large, progressive employers now provide substantially comparable coverage, and even the masses of average employers are no longer far behind.

The financing of health benefits has long been a troublesome aspect of the Federal program, and the situation has not improved during the past year. While the numbers of employers who pay all or most of the health plan premiums for employees continues to increase, the Federal formula remains unchanged. In addition to lagging behind the private sector, the Federal contribution rate is now exceeded by many public employers at all levels.

Although one of the strengths of the Federal program has always been the generosity of its benefit levels, its preeminence in this area is being seriously threatened by the strides made by other employers in the present year. Overall, the program is still somewhat more generous than those of most

employers, but not by a sufficient amount to constitute a significant competitive advantage.

In addition, while other employers continue to add new benefit areas, the Federal Government takes such steps infrequently. By adding new types of coverage, other employers are compensating for deficiencies in other areas and improving their comparative standing in the labor market.

Overall, the Federal Employees Health Benefits Program remains clearly superior to those of most employers. However, large, progressive organizations such as New York State, or General Motors, are now at least comparable if not in a competitively advantageous position based on comparisons of health benefits plans alone.

The committee believes that the Federal Government should follow the lead of the employers who represent a major industry reflecting a reasonable cross section of the Nation's economic scene. This legislation is designed to assure that the Government is at least striving to match private industry's trend toward providing its workers and retirees cost-free health insurance.

The President's health message to the Congress of February 18, 1971 (H. Doc. 92-49), proposed the adoption of a National Health Insurance Standards Act which would require employers to provide health insurance for their employees, with costs shared similarly as they are under most collective bargaining agreements. In that message, the President proposed that a ceiling on the employees' contributions be set at 35 percent effective in July 1973, and at 25 percent from an after January 1976. The President, in his message on human resources, of March 1, 1973 (H. Doc. 93-52), reaffirmed that "a major goal of this administration has been to develop an insurance system which can guarantee adequate financing of health care for every American family."

H.R. 9256 is designed to parallel the guidelines set forth by the President, thus alleviating Federal employees and retirees from bearing a disproportionate share of incessantly rising costs.

Pre-July 1960 annuitants.—The committee is seriously concerned with the adequacy of the protection accorded pre-July 1960 annuitants, especially those who are not eligible for full Medicare coverage. Older Americans represent about 10 percent of our population, but account for more than 25 percent of the costs of personal health care. They require relatively large outlays because they have more—and costlier—illnesses than the younger population. The average medical bill for each aged person, approximately \$800, is 6 times the \$125 average for a youth and almost 3 times the \$300 figure for a person in the intermediate age group.

It is estimated that the majority of those annuitants enrolled, or eligible to enroll, in the retired Federal employees' health benefits program are covered by Medicare A and B. Since the Medicare program provides good basic protection, the coverage available under the "retired" program serves as a supplement thereto. However, it is believed that the benefits provided under this program to that portion of enrollees who are not eligible for full Medicare may be inadequate for their health care needs.

H.R. 9256 responds to the needs of these particular retirees and survivor annuitants by allowing them to elect, in lieu of their present coverage, to participate in the more comprehensive Federal employees' health benefits program which applies to the active work force and to post-July 1960 annuitants.

The committee is cognizant of the fact that at some future date, as the number of participants therein decline by reason of death, it may be necessary to abolish this program and merge it with the "active" program.

Binding judgments by the Commission.—It is the consensus of the committee and the U.S. Civil Service Commission that a determination of a case by the Commission through its established administrative appeal procedure should be binding upon the carriers involved. It has come to the attention of the committee that Federal employees who have obtained favorable decisions from the Commission in disputes with their insurance carriers have in some instances been unable to recover from the carrier. In these situations, the Commission has no legal ground upon which to demand the carrier's compliance with their decision and the employee is forced into the courts if he is to recover his judgment. This legislation will correct that inequitable situation.

Effective Dates.—The initial increase in the Government's contribution to subscription charges from 40 percent to 55 percent will become effective on the first day of the first applicable pay period which begins on or after the 30th day following the bill's enactment. Additional increases in the Government's share of charges, will become effective in January of each subsequent year until 1977.

Section 2 of the bill, relating to pre-July 1960 annuitants, will become effective at such time as the Civil Service Commission may prescribe, but not later than the 180th day after enactment.

Section 3, relating to binding decisions by the Commission on claim disputes, will be effective with respect to any contract entered into or renewed on or after the date of enactment.

FRINGE BENEFITS—PRIVATE INDUSTRY VERSUS FEDERAL GOVERNMENT

The Bureau of Labor Statistics reported on December 31, 1971 (News Release USDL-71-701) that the 1970 Biennial Survey on Pay Supplements, commonly referred to as fringe benefits, showed that expenditures by employers in private industry for employee fringe benefits amounted to 26.6 percent of basic wages and salaries, and 27.8 percent in the Federal Government.

In 1968, when the last biennial survey was made, the employer expenditure percentages were 25.1 private industry, and 24.3 in the Federal Government.

In the Federal Government, almost the entire increase reflected increases in payments for retirement programs. First, the Government's payment into the retirement system was raised from 6.5 to 7.0 percent of basic salaries for each employee, to help finance previous improvements in plan provisions. This increased cost resulted in no increase in benefits for employees.

Second, the Government began to make amortization payments for newly created liabilities resulting from pay increases and new benefit liberalizations, and interest payments on past service liabilities.

The past service liabilities under the retirement program date back many years, some even to the beginning of the program in 1920. This increased cost resulted in no increase in benefits for employees.

If the increases due to increased retirement contribution and the past service liabilities, the inclusion of which in the fringe benefit comparison is subject to question, were eliminated from the comparison, then the expenditures by the employer in private industry, and by the Federal Government, would compare very favorably.

While the Government increase of 3.5 percent was reflected primarily in payment for retirement programs, 1 percent of the private sector increase of 1.5 percent was centered in health insurance. With this increase, industry now exceeds Government expenditures for health and insurance programs by approximately 3 percent, as shown by the chart below.

EXPENDITURES AS A PERCENT OF BASIC WAGES AND SALARIES

| | Private industry January- December 1970 | Federal Government July 1970- June 1971 |
|---|--|--|
| Health and insurance programs..... | 6.3 | 5.6 |
| Workmen's compensation..... | .8 | .5 |
| Sick leave..... | 1.1 | 3.3 |
| Life accident and health insurance..... | 4.4 | 1.8 |

The committee believes that the additional expenditure by the Government in the form of a higher rate of contribution to the health insurance premium, as provided by this legislation, is a worthwhile addition to the pay supplements, or the fringe benefit program, for the Federal Government, and will raise the Government health insurance program to a level more nearly equal to the similar programs in private industry.

BACKGROUND

FEDERAL EMPLOYEES' HEALTH BENEFITS PROGRAM

The Federal Employees' Health Benefits Act of 1959 (Public Law 86-382, approved September 28, 1959, now chapter 89 of title 5, United States Code) established the largest voluntary group health insurance plan in existence in the United States. It made basic and major health protection available to Federal employees in active service on and after July 1, 1960, and to their families. Such group coverage was also extended to retirees (and their families) who retire from active service thereafter.

The primary purpose of the legislation was to facilitate and strengthen the administration of the personnel activities of the Federal Government generally and to improve personnel administration by providing a measure of protection for civilian Government employees against the highly unbudgetable and financially burdensome costs of medical services through a comprehensive Government-wide program of insurance for Federal employees and their depend-

ents, the costs of which were to be shared by the Government, as employer, and its employees.

Since its inception, employees have had a free choice among plans in four major categories, including (1) a Government-wide service benefit plan offered by Blue Cross-Blue Shield, (2) a Government-wide indemnity plan offered by the insurance industry, (3) one of several employee organization plans, and (4) a comprehensive prepayment plan. The two Government-wide plans must offer at least two levels of benefits—a low option or “standard” policy and a high option or “preferred” policy. Currently, 13 employee organization and prepayment plans offer two levels of benefits, the remaining 26 offer only a high option level. All 41 plans allow for coverage for self alone, or for self and family.

Perhaps the program is unique when compared with traditional patterns in private industry, in that the employee had a broad range of choice between carriers and levels of benefits, and, to a lesser degree, may continue coverage into retirement. While the law prescribes, in general, the types of benefits to be provided under all plans, it authorizes the Civil Service Commission to contract with qualified carriers for such services, subject to any maximums, limitations, or exclusions considered necessary or desirable. However, it stipulates that the rates charged under all plans reasonably and equitably reflect the cost of the benefits provided, and that the rates of the two Government-wide plans be determined on a basis which is consistent with the lowest schedule of basic rates generally charged for new group plans issued to large employers.

In the development of the enabling legislation, congressional proponents favored a 50-50 employee-employer sharing of all costs and such a rate of contribution was included. However, because of the unknown factors inherent in an entirely new area of Federal employee fringe benefits, in which the Government had no previous experience, and because of fiscal considerations, a limitation was placed on the maximum contribution to be paid by the Government. This maximum was geared to the least expensive Government-wide low option plan and a dollar limitation was imposed which, at that time, contemplated that a “standard” policy which would be adequate for most employees’ needs could be purchased on a 50-50 sharing basis. It provided, further, that “preferred” policies be made available, but that those employees enrolling in high option or more expensive prepayment plans would pay the entire costs of the additional richer benefits.

In 1960 the initial distribution of enrollments between self-only and family coverage, between high and low options, and among the various 30-odd plans resulted in the Governments contributing approximately 38 percent of the aggregate premiums for all enrollments, and employees contributing 62 percent.

As time went on, this 38 percent Government share of the aggregate premium gradually diminished for two main reasons: (1) employees gravitated toward the more adequate high options; and, (2) high-option premiums increased because the cost of medical care increased, improved benefits were made available, and a relatively high morbidity was experienced. In contrast, experience of the low options was very good because there was a strong tendency for healthy employees

with healthy families to choose this less expensive coverage. Until recently, low-option premium rates remained fairly stable and the Government contribution, which was geared to these rates, could not be increased to reflect the increasing cost of medical care.

By 1970 the Government's share of the program's cost was down to 24 percent of aggregate premiums and only a few low-option plans received a Government contribution equal to one-half of the total premium charge. Effective in January 1971, Public Law 91-418, eliminated the maximum dollar amounts and expressed the Government contribution in terms of a percentage (40%) of total subscription charges, which is still below the 50-50 sharing ratio contemplated by the enabling legislation.

RETIRED EMPLOYEES' HEALTH BENEFITS PROGRAM

The Retired Federal Employees' Health Benefits Act of 1960 (Public Law 86-724, approved September 8, 1960) established a health benefits program, effective July 1, 1961, for Federal retirees and their dependents who were not eligible to enroll in the Federal employees' health benefits program because of their retirement prior to July 1, 1960.

Experience gained from implementing the 1959 Act indicated the desirability of establishing (1) a single uniform Government-wide plan, rather than the multiplicity of plans developed under the active employee program; and (2) in order to meet the varying needs of retirees, to grant the option of a person retaining or enrolling in a private health benefits plan (subject to certain qualification requirements), with the Government's contribution to the cost being paid directly to the annuitant.

Pursuant to the statutory authority, the Civil Service Commission entered into a contract with the insurance industry (Aetna) for a uniform plan, in which the retiree had the option of electing a basic policy and/or a major policy. While the law provides a minimum \$3 and a maximum \$4 monthly Government contribution for self-only coverage, the Commission allows a Government contribution of \$3.50 per month. The Government contribution for self-and-family is twice that amount, or \$7 per month. These same contributions are generally paid to annuitants who elect a direct payment for private plans or Medicare B coverage.

Subsequent to the advent of Medicare, the total premium charges for the Uniform plan have been substantially reduced, but the Government's contribution has remained constant notwithstanding the fact that benefits have been materially increased. The Government's contribution now is 87½ percent of the total charges.

There currently are about 2,000,000 retirees and survivor annuitants participating under this program, 80 percent of whom have Medicare coverage.

SECTIONAL ANALYSIS

SECTION 1

Subsection (a) of the first section of the bill amends subsections (a) and (b) of section 8906 of title 5, United States Code, relating

to the Government's contribution for Federal employees health benefits plans.

The new section 8906 (a) requires the Civil Service Commission to determine the average of the subscription charges of the six largest health benefits plans which are in effect on the beginning date of each contract year. The annual determination is to be made with respect to self alone and self and family enrollments, and is to be based on the highest level of benefits offered by each of the six representative plans.

No substantive change from existing law is made by subsection (a). The determination which the Commission will be required to make under the new section 8906 (a) is identical to the determination the Commission has been required to make each year under the existing provisions of section 8906 (a).

Paragraph (1) of the new section 8906(b) provides that, except as provided in paragraph (2) discussed below, the Government's bi-weekly contribution for each employee or annuitant who is enrolled in a health benefits plan under chapter 89 of title 5, United States Code, shall be an amount equal to the prescribed percentages of the average subscription charge which has been determined by the Commission under section 8906(a), discussed above. The specified percentages are 55 percent during 1973; 60 percent during 1974; 65 percent during 1975; 70 percent during 1976; and 75 percent during 1977 and during each year thereafter.

The Government's contribution, based on the above specified percentages, shall be adjusted as of the first day of the first applicable pay period of each year except during 1973, when the adjustment will be made on the first day of the first pay period which begins 30 days after enactment.

Under paragraph (2) of the new section 8906(b) the Government's contribution for an employee or annuitant may in no event exceed 75 percent of the subscription charge of the particular health benefits plan in which the employee or annuitant is enrolled. Under existing law the limitation is 50 percent.

Subsections (b) and (c) of the first section of the bill are technical amendments to conform the language of sections 8906(c) and 8906(g) of title 5 with the changes made to subsections (a) and (b) of section 8906.

SECTION 2

Section 2 of the bill would authorize any annuitant who retired prior to July 1, 1960, and who presently is participating or who is eligible to participate in the health benefits program offered under the Retired Federal Employees Health Benefits Act of September 8, 1960 (74 Stat. 849), to elect to be covered under the health benefits provisions of chapter 89 of title 5, United States Code. The term "annuitant" as used in this section has the same meaning given to that term by section 8901(3) of title 5.

The existing provisions of chapter 89 of title 5 are derived from the Federal Employees Health Benefits Act of 1959, Public Law 86-382, 73 Stat. 708. That Act applies only to employees who retired on or

after July 1, 1960. Employees retiring before July 1, 1960, were covered by the Retired Federal Employees Health Benefits Act.

It is not necessary that an annuitant be participating in the health benefits program offered under the Retired Federal Employees Health Benefits Act, or be receiving contributions under section 6 of that act, to be entitled to the benefit of this section. All that is necessary is that the annuitant still be eligible to participate in the health program offered under the 1960 act.

The Civil Service Commission will prescribe regulations to carry out the provisions of this section. Once the annuitant has elected coverage under the provisions of chapter 89 of title 5 he will be entitled to all of the benefits under such chapter and such coverage will be in lieu of participation under the Retired Federal Employees Health Benefits Act.

SECTION 3

Section 3 of the bill amends section 8902 of title 5, United States Code, by adding a new subsection (j).

The new subsection would require that each contract entered into under chapter 89 of title 5 include a provision whereby the carrier agrees to pay for or provide a service or supply in an individual case whenever the Civil Service Commission determines that the covered individual is entitled thereto under the terms of the contract.

SECTION 4

Section 4 sets forth the effective dates for the various sections of the bill.

The first section of the bill, relating to the Government's contribution to health benefits plans, would take effect on the first day of the first pay period which begins on or after the 30th day following the date of enactment. In connection with the effective date of the first section, subsection (d) of section 4 provides that, with respect to the year 1973, the determination of the average of subscription charges which the Civil Service Commission is required to make under the new section 8906(a) of title 5, United States Code, and the adjustment of the Government's contributions under the new section 8906(b) shall take effect on the same day that the first section of the bill takes effect. Thus, with respect to 1973, the legislation will have no retroactive application.

Section 2 of the bill, relating to pre-July 1, 1960, annuitants, would take effect on the 180th day following the date of enactment or such earlier date that the Civil Service Commission may prescribe. During this interim period the Civil Service Commission will promulgate regulations necessary to carry out the provisions of section 2. It may take effect as soon as the Commission has published its regulations.

Section 3 of the bill, relating to contractual requirements, would take effect with respect to any contract entered into or renewed on or after the date of enactment.

Section 4 of the bill would take effect on the date of enactment.

ESTIMATED COST

The committee estimates of the cost of the Government's contribution for approximately 2 million employees and annuitants on the

basis of existing law and the new percentages authorized by section 1 of the bill, are set forth below.

Costs are shown on a "static" basis and a "dynamic" basis. The "static" basis assumes no increase in premiums or enrollment. The "dynamic" basis assumes increases in the number of retirees and employees, changes from low to high option coverage, and increases in medical costs in line with current economic stabilization goals.

ESTIMATED GOVERNMENT HEALTH BENEFITS CONTRIBUTION

[In millions]

| | Static | | | Dynamic | | |
|--------------|-------------|-----------|----------|-------------|-----------|----------|
| | Present law | H.R. 9256 | Increase | Present law | H.R. 9256 | Increase |
| Fiscal year: | | | | | | |
| 1974..... | \$472.1 | \$675.1 | \$203.0 | \$491.2 | \$722.9 | \$231.7 |
| 1975..... | 472.1 | 719.4 | 247.3 | 532.3 | 867.4 | 335.1 |
| 1976..... | 472.1 | 758.2 | 286.1 | 578.1 | 1,032.7 | 454.6 |
| 1977..... | 472.1 | 802.6 | 330.5 | 626.0 | 1,197.2 | 571.2 |
| 1978..... | 472.1 | 813.7 | 341.3 | 677.4 | 1,327.3 | 649.9 |

The cost under section 2 of the bill, relating to pre-July 1, 1960 retirees, is estimated to be \$1.9 million annually for each of the next 5 fiscal years.

The above cost projections are based on the estimates furnished by the Civil Service Commission.

ADMINISTRATIVE REPORTS

The report of the U.S. Civil Service Commission, which is approved by the Office of Management and Budget, on H.R. 3025 is set forth below. The reported bill (H.R. 9256) does not include the provision relating to students or the provision relating to the Postal Service. Also set forth below is a letter expressing the views of the U.S. Postal Service on the applicability of H.R. 9256 to retired employees of the Postal Service.

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., July 11, 1973.

HON. THADDEUS J. DULSKI,
Chairman, Committee on Post Office and Civil Service, House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: This is in reply to your request for the Commission's views on H.R. 3025, a bill to increase the contribution of Government to the costs of health benefits for Federal employees, and for other purposes, as well as other bills with the same or similar provisions, including H.R. 436, H.R. 2473, H.R. 6464, H.R. 6802, H.R. 7041, H.R. 7042, H.R. 7045, H.R. 7481, H.R. 8126, and H.R. 8505.

In brief, H.R. 3025 would amend the Federal Employees Health Benefits law (5 U.S.C., ch. 89) to make the following changes:

Increase the Federal Government's contribution from 40 to 55 percent of the average high option premium of the two Government-wide plans, the two largest employee organization plans and the two largest comprehensive medical plans participating in the Federal Employees Health Benefits Program, with an additional increase of 5 percent per year until the Government contribution reaches 75 percent of the average high option premium

of these selected plans; however, the Government contribution would not exceed 75 percent of the employee's or annuitant's actual subscription charge.

Allow pre-1960 retirees under the Retired Federal Employees Health Benefits Program (RFEHB) to change to the Federal Employees Health Benefits Program (FEHB).

Extend coverage under the Federal Employees Health Benefits Program to unmarried children, regardless of age, who are full-time students.

Require a carrier participating in the Federal Employees Health Benefits Program to agree to comply with a Commission decision in a health benefits claims dispute.

Include employees of the Postal Service and the Postal Rate Commission under the "increase in Government contribution" and "student-child" provisions set forth above.

Section 1—Increase in Government contribution

In 1971, the Government's contribution was almost doubled to approximately 40 percent of premium. The Commission cannot favor a further increase in the Government contribution at a time when the Administration is trying to exercise financial restraint.

The Commission's opinion is that under present circumstances the current 40 percent contribution, with provision for maintaining it at that level in future years as premiums increase, represents an equitable sharing of the cost of health benefits with employees, especially when considered in the light of the Government's total expenditure for fringe benefits. Government expenditures for Federal employee benefits compare favorably with those of private employers although the components of the Federal and private benefits packages vary.

Government contributions to fringe benefits, as a percentage of basic payroll, will continue to rise as a result of commitments made over the past few years. For example, the added paid holiday (Columbus Day) will contribute to an increase in the percentage of Federal payroll expenditures attributable to employee benefits. Also, the requirement that the Government's share of the health benefits premium be maintained at approximately 40 percent will increase the percentage of payroll expenditures for health benefits, assuming health costs continue to rise faster than payroll.

Federal salary rates have been raised substantially during recent years as a result of adoption of the comparability principle. As a result, the purchasing power of Federal employees, including their ability to pay higher health benefits premiums, has been maintained despite inflation.

As emphasized by the President in his 1974 budget message, in which Congress was urged to join in a concerted effort to control Federal spending, there is a current urgent need to exercise fiscal restraint. In view of this need, the substantial cost of this proposal, and the reasons discussed above, the Commission strongly opposes enactment of section 1 of this bill.

The following table shows what the additional cost to the Government, excluding the Postal Service, would be if Section 1 of H.R. 3025 were in effect for the five fiscal years beginning July 1, 1973. Costs are shown on a static basis which assumes no increase in premiums or en-

rollment and on a dynamic basis which assumes increases in premiums and enrollment similar to those experienced in the past.

ESTIMATED GOVERNMENT HEALTH BENEFITS CONTRIBUTION
[In millions]

| | Static | | | Dynamic | | |
|--------------|-------------|-----------|----------|-------------|-----------|----------|
| | Present law | H.R. 3025 | Increase | Present law | H.R. 3025 | Increase |
| Fiscal year: | | | | | | |
| 1974..... | \$472.1 | \$675.1 | \$203.0 | \$491.2 | \$722.9 | \$231.7 |
| 1975..... | 472.1 | 719.4 | 247.3 | 532.3 | 867.4 | 335.1 |
| 1976..... | 472.1 | 768.2 | 296.1 | 578.1 | 1,032.7 | 454.6 |
| 1977..... | 472.1 | 802.6 | 330.5 | 626.0 | 1,197.2 | 571.2 |
| 1978..... | 472.1 | 813.7 | 341.3 | 677.4 | 1,327.3 | 649.9 |

Section 2—Retirees in the RFEHB program

There are approximately 210,000 pre-1960 retirees enrolled in the RFEHB Program. Some 80 percent of these retirees are over age 65 and are covered by Medicare hospital and medical insurance. They have available excellent coverage supplementary to the basic Medicare protection, either through the Government-sponsored Uniform Plan or through privately sponsored plans especially designed to supplement Medicare. The cost of many private plans supplementary to Medicare is reasonable and the Government adds \$3.50 (self only) or \$7 (self and family) to the retiree's monthly annuity check to help pay these premiums. The same contribution is made to enrollees in the Uniform Plan, and they pay only an additional \$.50 (self only) or \$1 (family) a month for the supplementary protection.

Our experience is that many older people tend to buy as much insurance as they can get and may already be overinsured. If section 2 is enacted, it is our considered opinion that a significant number of these people would switch to the FEHB Program in the mistaken belief that they needed the additional protection and at considerable more needless cost to themselves, as well as to the Government.

Because the large majority of people enrolled in the RFEHB Program already have excellent health insurance protection at very reasonable cost, and because we believe that the option afforded by section 2 to switch to the more costly FEHB Program would cause many of them to do so contrary to their best interests, the Commission opposes enactment of section 2 of H.R. 3025.

The annual Government cost for section 2 is estimated to be about \$7.6 million, assuming that only enrollees not eligible for Medicare transfer. Because this would entail a substantial additional cost to the enrollee, we further assume that only one-fourth of those not covered by Medicare will transfer, in which case the cost would be \$1.9 million a year.

Section 3—Coverage of full-time students

Under existing law, a family health benefits enrollment covers unmarried children until age 22, an age at which most children have completed their schooling. Cessation of their coverage is subject to a 31-day temporary extension of coverage, during which the enrollee has a right to convert the child's coverage, without evidence of insurability, to a non-group health benefits contract offered by the carrier of his plan.

Termination of the child's health benefits coverage at age 22 presents no real barrier to continuation of his education. The worst that happens is that the parent has to pay the cost of the child's converted health insurance over a limited period. Additionally, practically all schools offer student insurance coverage at very reasonable group premium rates.

We know from experience with the Civil Service Retirement law, which pays annuity to student-children to age 22 to help with college expenses, that the administration of the student-child provision is difficult and costly. We believe, however, that such a provision is inappropriate to health benefits coverage: for example what happens to the coverage of a child who drops out of school because of prolonged illness? It is for these reasons that the health benefits law now covers children to age 22 without regard to their student status.

Enactment of this proposal would result in an uneven sharing of its cost. It would be paid for by a portion of the contributions of all Federal employees including those at both low and high salary levels. However, older employees at the higher salary levels would benefit more from this proposal because they would be more likely to have adult children who are post-graduate students. Younger Federal employees at lower salary levels, although they would help pay for this proposal, would be less likely to benefit from it.

The Commission believes that students aged 22 and over already have health insurance protection available, that the extension as proposed by section 3 would financially benefit relatively few people at the expense of many and is therefore unwarranted and should be enacted.

The cost of the provision for extending coverage to unmarried students age 22 and over cannot be estimated with precision. According to census figures, the addition of this group to the family members now covered would increase the non-spouse dependent coverage by about one percent. This would result in an estimated increase in contribution cost to the Government at current contribution rates of about \$1.2 million as well as a slight increase in premium to employees and annuitants.

Section 4—Health benefits claims disputes

We are not currently experiencing any problems in securing carriers' compliance with Commission decisions on interpretation of contract benefit provisions. However, the Commission has no objection to Section 4 and would support its enactment if it were introduced as a separate bill.

Section 5—Postal Service employees

Section 5 of H.R. 3025 would include employees of the Postal Service and the Postal Rate Commission under the provisions of sections 1 and 3 of this bill dealing with an increase in the Government's contribution and student-children, respectively. This proposal, as it affects Government contributions, was initially introduced in the last Congress as an amendment to H.R. 12202. The purpose of the amendment was to clarify the issue of whether an increase in the Government contribution would be applicable to employees of the Postal Service and the Postal Rate Commission. In introducing that amendment, Representative Waldie stated in pertinent part (reported in p. H3702, Congressional Record of April 27, 1972) that—

"To resolve, however, the dispute once and forever, short of going to the courts, it is my intention to submit the issue to the Congress for resolution so that the Congress could this day make a determination in the House of Representatives at least, as to whether its (postal) employees are to benefit from any increase in health insurance premiums that the Government will make."

In essence, the Postal Service maintained that the increase should be the subject of collective bargaining rather than legislation. On this point and on the point of whether the provision regarding over-age student children applies to Postal Service employees, the Commission defers to the Postal Service which would be primarily concerned with resolution of these issues.

The Office of Management and Budget advises that there is no objection to the submission of this report and that enactment of H.R. 3025 would not be in accord with the program of the President.

By direction of the Commission:

Sincerely yours,

ROBERT HAMPTON,
Chairman.

U.S. POSTAL SERVICE,
LAW DEPARTMENT,
Washington, D.C., August 23, 1973.

HON. THADDEUS J. DULSKI,
*Chairman, Committee on Post Office and Civil Service,
House of Representatives, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in response to an informal request from the staff of your Committee for the views of the Postal Service as to whether H.R. 9256 would apply to retired Postal Service employees. In our opinion, the reduction in the cost to annuitants of health benefits provided by the bill would apply to retired Postal Service employees.

As you know, the Postal Service believes it is quite clear that under section 1005(f) of title 39, United States Code, any changes in health insurance costs affecting postal employees must be made through collective bargaining or, for non-bargaining unit employees, by administrative action of the Postal Service. The Postal Reorganization Act was generally intended to remove the determination of the terms and conditions of postal employment from the legislative arena and to lodge this responsibility with postal management, subject to collective bargaining. For this reason, and others more fully set out in our report on similar bills in the last Congress, H.R. 9620 and H.R. 12202, contained in H.R. Rep. No. 92-841, 82d Cong. 2d Sess. 8-10 (1972), H.R. 9256 would not be applicable to the Postal Service and to its employees.

However, the rationale which demonstrates the inapplicability of H.R. 9256 to employees on the rolls of the Postal Service does not extend to Postal Service annuitants. Retired employees obviously stand on a different footing in relation to their employer than do present employees. Postal Service annuitants are not members of the bargaining units represented by postal unions, and accordingly, the Pos-

tal Service is not required to engage in collective bargaining as to any changes in the annuities or other benefits of individuals who have retired. For this reason, and because the bill would in no other way affect the "exercise of the powers of the Postal Service", 39 U.S.C. § 410(a), we believe that the bill, if enacted, would apply so as to change the rate of the Government's contribution toward health benefits for retired postal employees.

It is my understanding that the Civil Service Commission concurs in the substance of the views expressed herein.

Sincerely,

ROGER P. CRAIG,
Deputy General Counsel.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

TITLE 5, UNITED STATES CODE

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Subpart G—Insurance and Annuities

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CHAPTER 89—HEALTH INSURANCE

* * * * *

§ 8902. Contracting authority

(a) * * *

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(j) *Each contract under this chapter shall require the carrier to agree to pay for or provide a health service or supply in an individual case if the Commission finds that the employee, annuitant, or family member is entitled thereto under the terms of the contract.*

§ 8906. Contributions

(a) [Except as provided by subsection (b) of this section, the bi-weekly Government contribution for health benefits for employees or annuitants enrolled in health benefits plans under this chapter shall be adjusted, beginning on the first day of the first pay period of each year, to an amount equal to 40 percent of the average of the subscription charges in effect on the beginning date of the adjustment, with respect to self alone or self and family enrollments.] *The Commission shall determine the average of the subscription charges in effect on the beginning date of each contract year with respect to self alone or self and family enrollments under this chapter, as applicable, for the highest level of benefits offered by—*

- (1) the service benefit plan;
- (2) the indemnity benefit plan;

- (3) the two employee organization plans with the largest number of enrollments, as determined by the Commission; and
- (4) the two comprehensive medical plans with the largest number of enrollments, as determined by the Commission.

[(b) The Government contribution for an employee or annuitant enrolled in a plan for which the biweekly subscription charge is less than twice the Government contribution established under subsection (a) of this section, is 50 percent of the subscription charge.]

(b)(1) *Except as provided by paragraph (2) of this subsection, the biweekly Government contribution for health benefits for an employee or annuitant enrolled in a health benefits plan under this chapter shall be adjusted, beginning on the first day of the first applicable pay period of each year, to an amount equal to the following percentage, as applicable, of the average subscription charge determined under subsection (a) of this section: 55 percent for applicable pay periods commencing in 1973; 60 percent for applicable pay periods commencing in 1974; 65 percent for applicable pay periods commencing in 1975; 70 percent for applicable pay periods commencing in 1976; and 75 percent for applicable pay periods commencing in 1977 and in each year thereafter.*

(2) *The biweekly Government contribution for an employee or annuitant enrolled in a plan under this chapter shall not exceed 75 percent of this subscription charge.*

(c) There shall be withheld from the pay of each enrolled employee and the annuity of each enrolled annuitant and there shall be contributed by the Government, amounts, in the same ratio as the contributions of the employee or annuitant and the Government under [subsections (a) and] subsection (b) of this section, which are necessary for the administrative costs and the reserves provided for by section 8909(b) of this title.

* * * * *

(g) The Government contributions authorized by [subsection (a) of] this section for health benefits for an annuitant shall be paid from annual appropriations which are authorized to be made for that purpose.

* * * * *

MINORITY VIEWS ON H.R. 9256

Again, as in the 92d Congress, we have legislation before us which increases the Federal Government's share of employee's health benefits insurance premiums. The reasons for opposing the legislation then are the same today.

The majority argues, unpersuasively, that an increase in the Government's contribution to 75 percent of premium is justified because many large employers pay the full cost of health benefits coverage. It further contends that such an increase would be equaling the private employer contribution called for in H.R. 7741, the National Health Insurance Partnership Act, enactment of which was advocated by the administration in the 92d Congress.

At first glance, both arguments are appealing. However, on closer examination a certain lack of credibility is evident.

In 1971, the Government's contribution was almost doubled to approximately 40 percent of premium. This provision requires an equitable sharing of the cost of health benefits with employees, especially when considered in light of the Government's total expenditure for fringe benefits. A recent study by the Civil Service Commission in December 1972 revealed that in recent years the Federal Government has lagged behind some large employers in providing health benefits coverage. However, in viewing all fringe benefit components, which includes retirement, health benefits, life insurance, holidays, sick leave, and vacations, the overall Federal package compares favorably. To illustrate this point, the same Commission study compared the Federal fringe benefit package with those of large non-Federal employers. The results were as follows:

- More liberal package—New York State;
- Comparable package—Aetna, Baltimore, du Pont, General Motors, I.B.M., Michigan; and
- Less liberal package—Georgia, Pacific Gas and Electric, U.S. Steel, Wisconsin.

The Civil Service Commission's views on this issue deserve repeating:

"Government contributions to fringe benefits, as a percentage of basic payroll, will continue to rise as a result of commitments made over the past few years. For example, the added paid holiday (Columbus Day) will contribute to an increase in the percentage of Federal payroll expenditures attributable to employee benefits. Also, the requirement that the Government's share of the health benefits premium be maintained at approximately 40 percent will increase the percentage of payroll expenditures for health benefits, assuming health costs continue to rise faster than payroll.

"Federal salary rates have been raised substantially during recent years as a result of adoption of the comparability principle. As a

result, the purchasing power of Federal employees, including their ability to pay higher health benefits premium, has been maintained despite inflation."

The argument that a 75 percent Government contribution to a Federal employee's premium would only equal what was called for in the National Health Insurance Partnership Act in the 92d Congress is misleading. That is, a 75 percent Government contribution would amount to many more dollars than a 75 percent contribution to premium by a private employer under H.R. 7741. The reason for this is that the benefits under the Federal employees program are substantially greater than those called for under H.R. 7741, and entail a correspondingly higher premium.

In addition to these objections to this legislation, this suggested increase in the Government's contribution comes at a time when the administration is trying to exercise financial restraint. Unless the Congress elects to curtail additional Government expenditures and halt deficit spending, we can further expect an uncommon growth in inflation and a worsening of our economy.

Based on a "dynamic" projection—that is, assuming increases in health insurance enrollments and increases in the cost of premiums—this legislation will require an additional outlay on the part of the Government of \$649.9 million by 1978, which will almost double the cost to the Government of the existing health benefits program. The total cost to the Government for the Federal health benefits program will then be \$1,327,300,000.

In view of the reasons discussed, the demonstrated need to restrain Government spending, and the substantial cost of this legislation, we urge rejection of H.R. 9256.

H. R. GROSS.
EDWARD J. DERWINSKI.
JOHN ROUSSELOT.
WALTER E. POWELL.
RICHARD W. MALLARY.
ANDREW J. HINSHAW.

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